

## Message Text

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ACTION ARA-20

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E.O. 11652: N/A

TAGS: ENRG, VE

SUBJECT: SUN OIL COMPANY'S VIEWS ON OIL NATIONALIZATION

1. VENEZUELAN SUN OIL COMPANY MANAGER GUSTAVO ARISTEGUIETA DISCUSSED WITH PETATT YESTERDAY AT SOME LENGTH HIS VIEWS ON PETROLEUM NATIONALIZATION. OVERALL HE IS REASONABLY OPTIMISTIC OF A FAVORABLE OUTCOME. LIKE OTHER COMPANIES, SUN'S MAIN OBJECTIVE IS TO PRESERVE ACCESS TO ITS VENEZUELAN OIL. ITS SECONDARY OBJECTIVE IS TO PRESERVE STRUCTURE OF COMPANY AS AN OPERATING TEAM.

2. ARISTEGUIETA BELIEVES STRONGLY THAT VENEZUELA WOULD BE MAKING A GREAT MISTAKE TO CONSOLIDATE ALL OIL COMPANIES HERE INTO ONLY FOUR COMPANIES. HE WOULD HOPE THEREFORE THAT ANNOUNCED AIM OF CREATING AT LEAST FOUR COMPANIES MEANS THAT GOVERNMENT WILL CONSIDER CREATING MORE THAN FOUR. WITH CREOLE, SHELL, AND MENE GRANDE (GULF) SLATED TO BE PRESERVED AS OPERATING UNITS, CHOICE OF LEADERSHIP OF FOURTH COMPANY WOULD BE BETWEEN SUN, WHICH IS NEXT LARGEST COMPANY IN TERMS OF PRODUCTION, AND MOBIL, WHICH HAS LARGER MANAGEMENT TEAM THAN SUN OWING TO ITS RELATIVELY DISPERSED

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OPERATIONS THROUGHOUT VENEZUELA. ARISTEGUIETA THINKGS THERE IS

A CHANCE THAT MOBIL MIGHT BE FOURTH COMPANY AND SUN THE FIFTH, AND HE WOULD HOPE THAT AS MANY AS POSSIBLE OF OTHER COMPANIES WOULD BE PRESERVED INTACT, SINCE TO TRY TO MELD THEM INTO ONE OR TWO COMBINES IS LIKELY TO CREATE ADMINISTRATIVE CHAOS.

3. ARISTEGUIETA BELIEVES THAT, DESPITE PROBLEMS INVOLVED IN CONSOLIDATING COMPANIES, VENEZUELAN GOVERNMENT WILL WANT TO DO SO TO SOME EXTENT. HE SAYS THAT IMPORTANT OFFICIALS IN MINISTRY OF MINES AND HYDROCARBONS ARE DETERMINED TO ELIMINATE CERTAIN COMPANIES WHICH THEY CONSIDER TO BE "POOR OPERATORS", NOTABLY TEXACO, SINCLAIR, AND ATLANTIC RICHFIELD. MINISTRY'S OBJECTIONS TO THESE COMPANIES ARE SAID TO RELATE NOT TO PERSONALITIES OF COMPANY LEADERSHIP BUT TO COMPANY POLICIES WHICH ARE SAID TO LAY TOO MUCH STRESS ON TODAY'S PROFITS AND TO PAY TOO LITTLE ATTENTION TO EXTENDING USEFUL LIFE TO OIL FIELDS BY CONSERVATION MEASURES AND SECONDARY RECOVERY TECHNIQUES. IN CONTRAST, ARISTEGUIETA BELIEVES THAT MINISTRY OFFICIALS HAVE A GREAT DEAL OF RESPECT FOR CREOLE PETROLEUM (EXXON). EVEN THOUGH CREOLE HAS BEEN SOMETHING OF A POLITICAL WHIPPING BOY, KNOWLEDGEABLE OFFICIALS IN MINISTRY ARE AWARE THAT IT IS ONE OF MOST EFFICIENT OPERATORS.

4. ARISTEGUIETA IS APPREHENSIVE THAT OIL COMPANIES, IN COURSE OF NEGOTIATING AND MANEUVERING FOR POSITION IN NATIONALIZATION PROGRAM, MAY FALL TO UNDERCUTTING EACH OTHER'S INTERESTS. HE FEARS, FOR EXAMPLE, THAT SHELL, WHICH IS A LARGE PRODUCER OF MOSTLY HEAVY, POOR QUALITY OIL IN LAKE MARACAIBO AREA, IS HOPING TAKE OVER SUN'S PRODUCTION OF VERY HIGH QUALITY, LIGHT OIL IN LAKE MARACAIBO. HE SAYS THAT SHELL HAS DISCUSSED WITH MINISTRY PROPOSAL TO BUILD A REFINERY ALONGSIDE LAKE MARACAIBO TO PROCESS LIGHT OIL OF KIND PRODUCED BY SUN.

5. COMMENT: AS VENEZUELAN GOVERNMENT CONTINUES TO DEVELOP ITS OIL NATIONALIZATION POLICY, IT IS CLEAR THAT SMALLER COMPANIES ARE LIKELY TO FEEL THEMSELVES MOST DISADVANTAGED. IF ALL OF THEM ARE ABLE

TO RETAIN ACCESS TO MOST OF OIL THEY NOW PRODUCE, THEY MAY ACQUIESCE IN NEW DEAL BUT WILL BE SORELY DISAPPOINTED TO LOSE THEIR STATUS AS INDEPENDENT MANAGEMENT ENTITIES AND OPERATORS.  
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